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Decline in Gross FSU Ag Output To Slow in 1996 as Grain Production Recovers; Meat Imports Remain Strong

FSU gross agricultural output will continue to fall in 1996, but at a significantly lower rate than in 1995, due to a rebound in grain output. Increased grain production and continued reduction in feed use, caused by further contractions in the region's largest livestock producing countries, are expected to result in near record low grain imports in 1996/97. Russian meat imports, driven mainly by poultry meat, are expected to exceed last year's record highs, prompting increased calls in Russia for greater protectionism. In a recent move aimed at protecting domestic producers and processors, Russia imposed measures to restrict the import of sugar from Ukraine, its largest supplier.

Contractions in Gross Ag Output Lessen in 1996

Although the former Soviet Union's (FSU) gross agricultural output is expected to decline yet again this year, the drop should be significantly less than in 1995. In Russia, gross agricultural output is expected to fall 3-5 percent this year, versus drops of 12 percent and 8 percent in 1994 and 1995, respectively. After plummeting severely due to political/ethnic strife and/or economic restructuring during the last 4 years, gross agricultural output in many of the smaller FSU countries, including Armenia, Azerbaijan, Georgia, and Kyrgyzstan, is expected to grow around 5 percent this year.

Improved grain crops in most FSU countries and stabilization of livestock output in many of the smaller FSU countries is expected to slow the contraction of the FSU farm sector in 1996. However, the continued downsizing in 1996 of the much larger Russian, Ukrainian, and Kazak livestock sectors continues to outweigh recovery in grain production and is driving the overall fall in agricultural output.

Agricultural output for the FSU countries in

aggregate could bottom out in 1997. If grain output increased further next year (assuming average weather conditions, i.e. not a repeat of the severe drought in Ukraine) and if the downsizing of the livestock sector slowed next year (assuming producer terms of trade were to further improve in Russia), the region's overall output could stabilize.

Russian Ag Imports Increase in 1996, 1997 Outlook Tempered by Possible Rise in Protectionism

Russian imports of most food and agricultural products either remained stable or increased in the first 7 months of 1996. Although a more protectionist trade policy should not significantly affect Russia's overall trade outlook for the rest of 1996, it could dampen import growth for some products in 1997. Much of 1997's outlook will depend on the type of policies adopted and how effective these new measures will be. Moreover, Russia's bid to join the World Trade Organization (WTO) should affect the way in which future trade policies are developed, since adoption of WTO-inconsistent measures will greatly complicate this process.

Russian government and Duma officials are preparing legislation that may introduce quotas and other policies (such as new food safety regulations, and labeling requirements) to increase protection for domestic producers. Trade measures directed at Ukrainian imports (introduction of VAT on Ukrainian exports and sugar quotas) are under consideration or have reportedly been implemented, while import quotas for vodka are planned for late 1996 or early 1997. It is still unclear, how effective these new policies would be, considering past difficulties in implementing and/or unwillingness to enforce more protectionist measures.

According to 7-month data, Russian imports of red meat, poultry meat, fish, grain, coffee, cane and white sugar, and cocoa beans increased (in value and volume terms) from the same period in 1995, while imports of dairy products (particularly butter), citrus, tea, vegetable oil, and chocolate declined (table 1). Despite the introduction of higher import tariffs in 1996, many products (such as poultry and sugar, which face relatively high tariffs) have shown strong import growth, indicating that the effect of this tariff increase, as of July, has not been significant. Lower per unit import prices for most of these products, relative to 1995, could indicate that exporters are lowering prices to maintain market share. Continued real appreciation of the ruble against the dollar has also helped to keep imports competitive.

It should be noted that these data most likely have not been adjusted for "informal" shuttle trade, which for many food products is sizable. They also may not include adjustments for transshipments through other Baltic and CIS countries (such as Ukraine and Belarus).

During the first 11 months of fiscal 1996 (October-September), U.S. agricultural exports to the FSU region continued to increase, growing 40-50 percent in value terms (table 2). Currently, USDA projects fiscal 1996 U.S. agricultural exports to the FSU region at \$1.6 billion, of which \$1.3 billion is forecast for Russia (both forecasts are 40 percent higher than actual fiscal 1995 levels).

U.S. exports to Russia of animal products (driven by strong poultry meat sales), fresh and processed fruits and vegetables, fruit juices, vegetable oils, coffee, cocoa, wine beer, and non-alcoholic beverages were

all up in value terms during the October-August period, reflecting Russia's continuation as a strong market for U.S. high-value products (HVPs). In fact, Russia is currently the fourth largest country market for U.S. consumer-oriented products, behind Japan, Canada, and Hong Kong.

Table 1--Russian agricultural imports from extra-FSU sources, 1991-96¹

Commodity	1991	1992	1993	1994	1995	1996 ²
<i>1,000 tons</i>						
HVP's:						
Meat (beef, pork) ³	517	291	85	392	594	323
Poultry ³	89	46	74	496	824	545
Butter	153	25	70	103	169	44
Dry milk	77	49	15	33	45	14
Citrus	266	43	172	609	455	278
Apples	156	79	81	261	381	293 ⁵
Bananas	8	2	19	379	503	na
Wheat flour	556	944	54	13	234	526 ⁵
Vegetable oil	201	463	93	127	352	53
Sugar	3,269	3,691	3,109	1,462	1,551	1,533
Coffee	45	35	13	26	26	17
Cocoa beans	17	24	22	58	56	32
Tea	143	47	55	85	142	na
Bulk commodities:						
Wheat	10,689	17,593	5,699	1,181	383	2,018 ⁵
Barley	2,882	3,967	615	15	14	1,232 ⁵
Corn	5,457	5,490	4,391	864	237	110 ⁵
Rice	322	7	43	18	95	226 ⁵
Soybeans	170	68	na	na	65	1 ⁵
<i>Billion dollars</i>						
Total agricultural imports ⁴	12.4	9.6	6.0	8.6	9.7	na
<i>Percent</i>						
Agriculture's share of total import value ⁴	28	26	22	30	29	na

na=Not available.

¹ Includes imports from the Baltic countries after 1992. Data for 1994-96 are from the Russian Customs Committee.

² January-July. ³ Fresh/frozen meat. ⁴ Includes fish and seafood, alcoholic beverages, and tobacco products.

⁵ Imports from CIS and non-CIS sources.

Sources: Goskomstat Rossii, Statkom SNG, Russian Customs Committee.

Ukrainian imports of U.S. HVPs (in value terms) have also grown rapidly in the first 11 months of fiscal 1996. Total U.S. agricultural exports to Ukraine grew nearly 90 percent during the first 11 months, driven by increased sales (or sales for the first time)

Table 2 --U.S. agricultural exports to FSU and Russia, fiscal 1993–96

Commodity	FSU				Russia			
	1993	1994	1995	1996 ¹	1993	1994	1995	1996 ¹
<i>\$ million</i>								
Wheat	566	257	117	183	275	92	62	42
Corn	493	275	13	10	336	242	1	10
Soybeans	10	5	25	--	--	--	16	--
Soybean meal	111	171	39	53	82	130	3	--
Pork	1	29	63	42	0.8	28	63	42
Poultry meat	27	282	533	867	27	258	504	761
Dairy products	120	129	65	39	83	93	42	19
Fruits, nuts, veg.	38	69	61	74	26	55	50	64
Sugar & trop. prods.	46	107	36	29	44	104	33	26
Other	149	162	208	249	91	102	138	188
Total	1,561	1,486	1,158	1,546	965	1,104	911	1,152
<i>1,000 tons</i>								
Wheat	4,529	2,183	712	865	2,196	762	391	207
Corn	4,965	2,640	115	58	3,380	2,337	9	58
Soybeans	46	19	107	--	--	--	65	--
Soybean meal	541	810	206	227	384	612	15	--
Pork	0.3	18	42	27	0.3	18	42	26
Poultry meat	221	336	662	952	43	315	625	843
Dairy products	83	95	34	44	49	76	24	11
Sugar & trop. prods.	20	53	27	10	20	52	25	9

-- = Negligible or none.

¹ October–August 1995/96.

Source: USDA.

of beef, pork, poultry meat, processed grain products, soybean meal, processed fruits and vegetables, nuts, snack foods, chocolate, and non-alcoholic beverages. With the exception of PL 480 Title I credit for soybean meal purchases, nearly all of fiscal 1996 Ukraine's food imports from the United States have been made without U.S. export assistance.

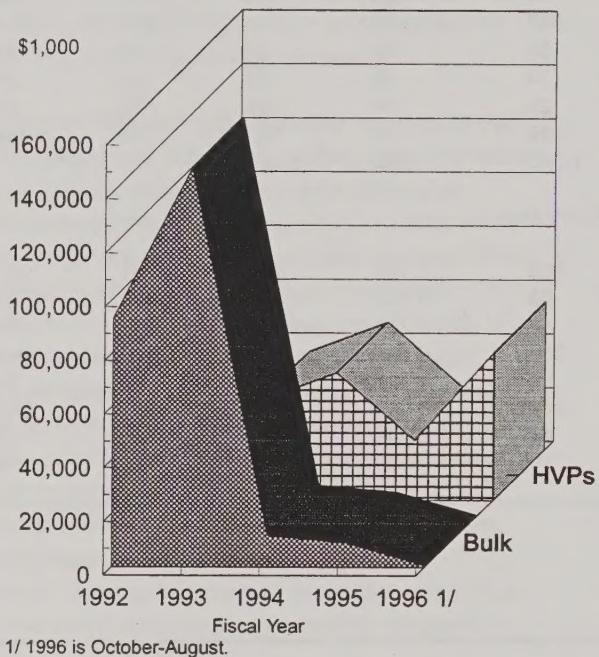
As in Russia, HVPs now make up nearly all of U.S. agricultural exports to Ukraine (figure 1). Ukraine lags behind Russia in economic reform by a few years, and continued growth in U.S. food exports to Ukraine is expected, since many of the reasons for increased sales to Russia (changing consumer preferences, some degree of macroeconomic stabilization) are now appearing in Ukraine. However, U.S. food exports are not expected to reach the magnitude of those to Russia for several

reasons: 1) Ukraine has only one major food-deficit urban region, Kiev, which has a population of over 2 million people (compared to Moscow, St. Petersburg, and Ekaterinburg, with a combined population of 15 million); 2) Ukraine is a larger per capita agricultural producer; and 3) Unlike Russia, Ukraine does not possess significant natural resources to export for hard currency, and has run a negative trade balance with non-FSU countries since 1992.

Other FSU countries have also significantly increased imports of U.S. agricultural products. Exports to all FSU countries, except Kazakhstan, Azerbaijan, Kyrgyzstan, and Tajikistan, grew in October-August 1995/96, with the largest increases (over 100 percent) taking place in exports to Turkmenistan, Uzbekistan, and Latvia. (It should be noted that the large increase in Uzbek and Turkmen imports is mostly due to historically low imports in fiscal 1995.)

Although exports to the Central Asian countries continue to be primarily of grain, Latvia and Estonia have sharply increased imports of U.S. HVPs, particularly poultry. However, it is likely that at least some, if not most, of those imports are transshipped to Russia.

Figure 1
Ukraine Increases Imports of U.S. HVPs



FSU Trade Policy Becoming More Protectionist

Within the FSU region, agricultural trade policy continues generally to move away from controls on exports toward restrictions on imports. In particular, agricultural protectionism is growing in the more reformist nations of Russia, the Baltic States, and Ukraine.

In Russia, tariffs for most agricultural imports generally range from 15 to 30 percent (poultry, for example, being taxed at the high end). Senior government officials have been speaking openly of the need to protect domestic agricultural producers by imposing import quotas, in some cases stating that quotas would in fact soon be established. Meat (especially poultry), dairy products, sugar, and

vegetable oil imports are the most commonly cited targets for quotas. The Russian Duma is reportedly working on a bill that could limit imports of specific foodstuffs to no more than a reported 30 percent of domestic consumption, with a maximum of 20 percent of consumption satisfied by imports from any one country. Although the legislation might not be passed, it reveals the degree to which protectionist sentiment in Russia is growing.

The Russian government is also raising quality and health standards for imported foodstuffs, and strengthening the import inspection service. While the Russians claim officially that domestic output is held to the same safety standards as imports, such measures are seen by many as a technical barrier to trade.

When food supplies in the FSU region tighten, governments remain capable of and willing to control exports. Poor 1996 grain harvests in Ukraine and Moldova have motivated those countries to restrict grain exports until the target for state procurement is met.

The ability of FSU agriculture to compete with imports (especially from outside the region) depends largely on its price competitiveness. Since reform began, two developments have most hurt agriculture's price competitiveness: the real appreciation of countries' currencies and the substantial increase in agricultural input prices. Livestock producers, for whom import competition has increased the most, have been hurt by a third development--falling productivity of many inputs.

Through the course of reform, virtually all the transitional economies of the former Soviet bloc (Central and East European as well as FSU countries) have experienced real appreciation of their currencies. Table 3 gives the real appreciation of currencies for the more quickly reforming FSU countries during 1992-95, as well as estimated appreciation during 1996-2000.

The currencies have appreciated so strongly in real terms because at the beginning of reform they were extremely undervalued, from a purchasing power parity point of view. One reason for the undervaluation was that high inflation and general economic uncertainty resulted in massive capital

flight. Another reason was that export restrictions existing at the beginning of reform kept the trade-generated demand for the countries' currencies low, thereby depressing the currencies' value. As countries reduced inflation and export restrictions, capital flight lessened and demand for the national currency increased. As a result, currencies appreciated in real terms.

Table 3--Real appreciation of FSU currencies

	1992-95	1996-2000 ¹
	Percent	
Russia (ruble)	462	50
Ukraine (karbovanets) ²	174	107
Kazakhstan (tenge)	266	76
Estonia (kroon)	249	5
Latvia (lati)	130 ³	2
Lithuania (litai)	147 ³	10

¹ Estimated. ² Replaced in September 1996 by the hryvnya. ³ Computed over 1993-95.
Source: DRI/McGraw Hill, World Markets Report, March 1996.

Although a general reason why FSU currencies have been appreciating in real terms has been falling inflation, the technical reason for the real appreciation is that these countries' inflation has been greater than the currencies' depreciation in nominal terms. Inflation is making domestic goods more expensive relative to imports. The real appreciation of a country's currency hurts the price competitiveness of all domestic producers vis-a-vis foreign goods. The substantial real appreciation of currencies during 1992-95 has therefore been a major contributor to growing political pressure for agricultural protectionism.

The private firm *DRI* estimates that during 1996-2000 the currencies of the **Baltic States** will be stable in real terms. If so, pressure for agricultural protectionism should no longer continue to grow based strictly on real appreciation of the currency. However, over 1996-2000 the currencies of **Ukraine** and **Kazakhstan** are estimated to continue to appreciate strongly in real terms, although significantly less than during 1992-95, while real

appreciation of the **Russian ruble** should moderately continue. The consequent worsening in agriculture's price competitiveness will likely intensify pressures for protectionism.

A qualification concerning **Russia** is that in the short run any serious political destabilization would probably cause depreciation rather than appreciation of the ruble in real terms. Uncertainty would most likely depreciate the currency in nominal terms to such a degree that it would also depreciate in real terms. The effect would be to make Russian agricultural output more price competitive.

A second reason the price competitiveness of FSU agriculture has suffered since reform began is that prices for agricultural inputs have risen substantially. This has been reflected in agricultural producers' worsening terms of trade (that is, more units of output must be sold to purchase a given amount of inputs). However, in at least **Russia**, agriculture's terms of trade appear not only to have stopped deteriorating, but actually to have improved. In 1995, agricultural producer prices rose 230 percent, while prices for electricity, machinery, and chemicals climbed 200, 180, and 170 percent, respectively.

The worsening of agriculture's terms of trade following price liberalization indicates that under the previous planned system, agriculture was subsidized not only through direct financial transfers, but also indirectly through the input price system. Yet, **Russia's** improved agricultural terms of trade in 1995 suggest that throughout the agriculture and food economy, prices may now have largely adjusted to reflect the full costs of production. If so, the decline in agriculture's price competitiveness from rising (relative) input prices should not continue. In this respect, **Russia** might well be a precursor for other FSU countries.

For livestock producers, price competitiveness has dropped for yet a third reason--falling productivity of many inputs. According to a 1995 World Bank study, from 1991 to 1994 in **Ukraine**, the amount of labor, feed, and fuel and lubricants needed to produce one ton of poultry meat rose 50, 20, and 30 percent, respectively (though the amount of electricity required fell 5 percent). Over the same period in **Ukraine**, the quantity of the three inputs needed to produce 1,000 eggs increased 30, 10, and

25 percent, respectively, and with electricity use also rising 76 percent. In Moldova over the same period, productivity for the above inputs in livestock production fell by as much or even more than in Ukraine (with the exception of fuel, for which productivity rose).

However, the apparent decline in productivity of feed must be judged with caution, because the FSU countries have been substituting less expensive feeds such as forage crops for more expensive concentrate feeds. Thus, if prices for the various elements in the feed mix are taken into account, an increase in the aggregate quantity of feed used to produce a given level of output might not by itself indicate rising real costs for feed use.

FSU Meat Imports Continue To Grow in 1996

Following record calendar year 1995 meat imports, totaling about 2 million tons (including nearly 20 percent from other FSU countries), Russia looks set to import even more in 1996. Russia's extra-FSU imports of red meats during the first 8 months of 1996 were running nearly 15 percent ahead of January-August 1995 data (322,000 tons), and over a third ahead for poultry meat (498,000 tons last year). Nearly all of Russia's current pork and poultry meat imports come from outside the FSU region. However, less than two-thirds of Russia's beef imports come from extra-FSU sources, with the remainder originating mainly in Ukraine.

U.S. sales of poultry meat (593,000 tons) to Russia for the first 8 months of 1996 were up nearly 40 percent from a year earlier, while beef and pork exports (which account for less than 5 percent of total U.S. meat exports to Russia) were down about 50 percent. U.S. sales of variety meats (offals) and sausages so far this year remain at last year's level of about 65,000 tons.

It is unlikely that the sharp growth in U.S. poultry meat sales so far in 1996 will continue through the rest of the year, even though imports have reportedly been 10-15 percent less expensive than domestic poultry, which is often of a lesser quality.

Political momentum in Russia and many of the other FSU countries for stronger measures to protect livestock producers, such as increased tariffs and

quotas, continues to build, despite the concerns of those pressing for accession to the WTO.

Reference to the growing share of imports in total meat consumption is increasingly made by officials from all parts of the Russian political spectrum. Although higher figures are cited in Russia, ERS estimates that imports account for 25-30 percent of total meat consumption in Russia, with larger shares in Moscow and St. Petersburg. Imports are estimated to take a larger share of poultry meat consumption.

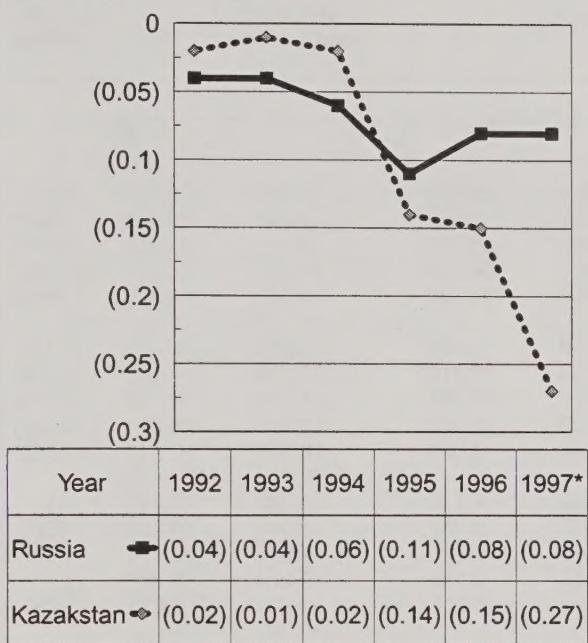
The primary factors contributing to large imports, particularly of poultry meat, continue to include competitively priced imports (the result of high-cost Russian production and the continued real appreciation of the ruble) and consumer preference for higher quality, better packaged, and easier-to-prepare meat. The majority of non-poultry meat imports are in the form of processed meat (e.g. sausage) or are intended for processing into sausage by domestic processing plants.

Although aggregate 1996 FSU livestock product output has continued to contract for the seventh consecutive year (driven largely by declines in Russia, Ukraine, and Kazakhstan), a number of the FSU countries are beginning to show signs of stabilization or growth. Livestock output in Armenia, Azerbaijan, Georgia, Kyrgyzstan, and the three Baltic States should grow about 4-8 percent for 1996, as GDP and incomes begin to rise from extremely low levels. The growth in inventories and output likely reflects a sustainable recovery of the livestock sector in these countries, after cuts of up to 50 percent in animal inventories (figures 2, 3).

In the three largest FSU livestock producing countries (Russia, Ukraine and Kazakhstan), the decline in animal numbers shows few signs of lessening in 1996, dropping nearly 10 percent or more from the year before. The rate of decline in the estimated production of animal products in 1996, however, has lessened somewhat compared to 1995. Of note in 1996 is the growth in hog inventories in private hands in the three countries. Total animal numbers have dropped since their peak levels by about 40 percent in Russia and Ukraine, and about 50 percent in Kazakhstan, and overall inventories will likely continue to contract for another 1-3 years

Figure 2

Cattle Inventories:
Russian and Kazakhstan inventories keep declining...
Percent change from previous year

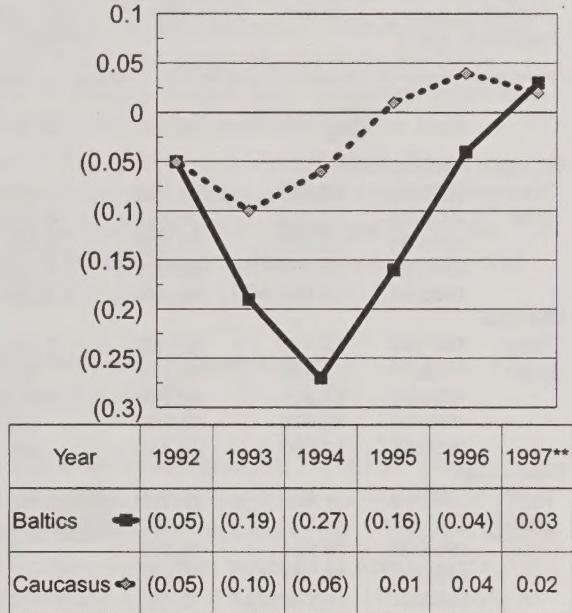


As of January 1

* = projection.

Figure 3

Cattle Inventories:
...while Baltics and Caucasus* show signs of recovery.
Percent change from previous year



As of January 1

* Caucasus include Armenia, Azerbaijan, and Georgia.

** = projection.

before they bottom out.

FSU livestock should benefit in the latter part of 1996 from an improvement in overall feed supplies. Increased grain production in most FSU countries (**Ukraine** is the major exception) this year may weaken grain prices and contribute to a further improvement in livestock producers' terms of trade in late 1996. For the first time in many years, the terms of trade in Russia turned in favor of livestock producers in 1995. In addition to larger grain supplies, 1996 forage supplies per head of animal in most countries should be close to last year's level and above that in 1994. While forage output is down in many countries in 1996, it has been offset in most cases by declines in livestock inventories, such that feed per animal is unchanged. In **Russia**, while total forage crop output was reported down 11 percent as of late August, forage supplies per animal were actually up from the same time in 1995.

FSU Grain Imports Forecast at Near-Record Low in 1996/97

Higher FSU grain output, fiscal austerity, and further

downsizing of the FSU livestock sector are expected to reduce 1996/97 (July/June) FSU grain imports (intra- and extra-FSU) to less than 10 million tons, a near-record low (table 4). Further decline in already low grain stocks could place upward pressure on grain prices in certain FSU countries such as **Ukraine**.

The majority of FSU grain import needs are likely to be satisfied within the region as **Ukraine** and **Kazakhstan** remain sizeable wheat suppliers. Despite its much smaller harvest this year, **Ukraine** has ample reserves to allow for substantial wheat exports due to the government's past practice of keeping wheat stocks exceedingly high for food security reasons.

Grain imports from outside the FSU region are limited by reduced financing sources as foreign governments (particularly the U.S. and the E.U.) have scaled back their export subsidies and credits and because many FSU governments lack the ready cash to finance grain imports themselves.

Table 4-- Supply and use of grain, former Soviet Union (FSU) and major countries¹

Marketing year beginning July 1	Area	Production ²	Trade ³		Availability	F.S.I. ⁴	Utilization		Stock change				
			Imports	Exports			Feed & residual	Total					
1,000 hectares					1,000 tons								
Russian Federation													
Total	1992/93	57,647	101,957	21,655	1,300	122,312	39,100	78,197	117,297	5,015			
grain ⁵	1993/94	56,800	94,722	8,700	975	102,447	37,700	65,741	103,441	(994)			
	1994/95	52,335	77,200	2,369	2,163	77,406	36,700	49,795	86,495	(9,089)			
	1995/96 ⁶	51,121	60,800	5,150	575	65,375	34,017	41,380	75,397	(10,022)			
	1996/97 ⁷	49,950	67,100	3,000	1,200	68,900	34,760	34,540	69,300	(400)			
Ukraine													
Total	1992/93	12,141	35,093	2,150	380	36,863	14,450	23,605	38,055	(1,192)			
grain ⁵	1993/94	12,499	42,120	425	825	41,720	14,310	22,732	37,042	4,678			
	1994/95	11,505	32,383	413	267	32,529	13,821	21,181	35,002	(2,473)			
	1995/96 ⁶	12,376	31,880	125	1,275	30,730	13,970	18,350	32,320	(1,590)			
	1996/97 ⁷	12,080	24,430	325	775	23,980	13,300	14,540	27,840	(3,860)			
Kazakhstan													
Total	1992/93	21,803	28,863	400	7,700	21,563	6,115	11,330	17,445	4,118			
grain ⁵	1993/94	21,553	21,032	55	6,050	15,037	6,022	9,611	15,633	(596)			
	1994/95	20,284	15,912	2	4,074	11,840	5,777	7,101	12,878	(1,038)			
	1995/96 ⁶	18,354	9,475	0	3,525	5,950	5,140	3,583	8,723	(2,773)			
	1996/97 ⁷	16,750	12,450	0	3,000	9,450	5,205	3,345	8,550	900			
Belarus													
Total	1992/93	2,532	7,050	2,010	280	8,780	2,293	6,292	8,585	195			
grain ⁵	1993/94	2,599	7,291	1,350	100	8,541	2,236	6,162	8,398	143			
	1994/95	2,635	6,018	936	25	6,929	2,053	5,034	7,087	(158)			
	1995/96 ⁶	2,495	5,450	720	25	6,145	1,950	4,495	6,445	(300)			
	1996/97 ⁷	2,750	6,300	300	125	6,475	2,065	4,360	6,425	50			
Uzbekistan													
Total	1992/93	1,030	1,745	3,710	0	5,455	3,631	1,723	5,354	101			
grain ⁵	1993/94	1,095	1,552	3,805	0	5,357	3,665	1,609	5,274	83			
	1994/95	1,295	1,972	2,472	0	4,444	3,578	1,245	4,823	(379)			
	1995/96 ⁶	1,610	2,407	1,755	0	4,162	3,527	966	4,493	(331)			
	1996/97 ⁷	1,735	2,807	1,755	0	4,562	3,601	861	4,462	100			
Moldova													
Total	1992/93	665	1,974	715	20	2,669	1,090	1,927	3,017	(348)			
grain ⁵	1993/94	833	3,212	300	20	3,492	1,080	1,870	2,950	542			
	1994/95	743	1,655	491	40	2,106	1,016	1,267	2,283	(177)			
	1995/96 ⁶	744	2,489	170	200	2,459	1,020	1,339	2,359	100			
	1996/97 ⁷	724	1,609	150	50	1,709	960	949	1,909	(200)			
Other FSU (9)													
Total	1992/93	4,347	8,318	5,670	0	13,988	7,022	7,190	14,212	(224)			
grain ⁵	1993/94	4,613	9,021	4,984	21	13,984	6,864	6,552	13,416	568			
	1994/95	4,262	7,397	3,791	65	11,123	6,219	5,232	11,451	(328)			
	1995/96 ⁶	4,144	6,933	3,380	0	10,313	6,242	4,681	10,923	(610)			
	1996/97 ⁷	4,093	7,830	3,360	0	11,190	6,377	4,772	11,149	41			

(-) = negative value. ¹ FSU includes 15 countries. ² Production is in cleanweight. ³ Includes intra-FSU and extra-FSU trade.

⁴ F.S.I. = food, seed, and industrial use. ⁵ Wheat and coarse grains. ⁶ Preliminary. ⁷ Projection. ⁸ Includes barley, corn, millet, oats & rye. Source: USDA, estimates as of October 1996.

Administrative controls on grain imports are rare in the FSU region, though some countries such as **Russia** have imposed controls on flour imports (apparently to support Russia's domestic milling industry).

A modest amount of extra-FSU grain imports (mainly of food wheat) are likely to cover food aid needs in the **Caucasus** and **Central Asia** and to supply the Russian Far East (in light of the extremely high transport costs from European Russia).

1996/97 FSU Grain Crop Raised by Better Russian Harvest

Despite drought in **Ukraine** and southern **Russia**, FSU grain output rose this year for the first time since 1992. As of October, USDA projects 1996/97 FSU grain output (including wheat and coarse grains) at 122.5 million tons cleanweight, up 3 percent from 1995/96. (Total grain output as reported by FSU countries also includes buckwheat, rice, pulses, and miscellaneous grains; it is projected at 128 million tons in 1996.) All of the increase in FSU grain production is due to higher yields, which are projected up about 6 percent, as total area sown continues to shrink for the 16th straight year.

Sharply higher wheat output is solely responsible for the increased 1996/97 FSU grain crop. Historically high wheat prices throughout the FSU region stimulated expanded area sown, and with improved yields wheat production rose 13 percent to an estimated 67 million tons, the largest since 1993/94. As producers responded to greater profitability from wheat, area planted to coarse grains has contracted more than one-fifth over the past 3 years. Lower relative coarse grain prices reflect lower demand for feed grains than for food grains. Despite modestly improved yields, total FSU coarse grain output is forecast to decline 7 percent to 55 million tons.

Ukraine suffered from prolonged heat and drought in the south and east, and projected 1996/97 grain output is down sharply from last year. Drought also afflicted southern **Russia**, but improved conditions in remaining grain-growing regions offset losses in the North Caucasus. **Russia** and **Kazakhstan**, which were hit hard by drought last year, are forecast to produce significantly more grain in 1996/97.

Most of the remaining FSU countries, which together account for less than one-fifth of the region's total grain output, are expected to produce more grain in 1996/97 than the previous year. This is largely due to either improved yields (especially in the Baltic nations of Estonia, Latvia, and Lithuania), expanded area sown (Azerbaijan and Georgia), or both (Belarus, Kyrgyzstan and Uzbekistan). Most countries expanded wheat area in 1996/97 at the expense of barley or other coarse grains. Grain output in **Moldova** and **Turkmenistan** is projected to fall 15-25 percent in 1996/97.

High Prices Should Keep Wheat Area Large in 1997

High domestic wheat prices in most FSU countries, buoyed by solid demand and low stocks, should keep wheat area large over the next year. **Russian** food wheat prices more than doubled in dollar terms between early 1995 and September 1996, moving in fairly close relation to world market prices (table 5). While international wheat prices eased after peaking in March-April 1996, **Russian** wheat prices have not eased as much owing to low stocks and continued tight supplies. Even with 1996/97 **Russian** wheat output forecast to rise 16 percent, prices are unlikely to decline much, since stocks-to-use ratios are likely to remain well below 10 percent, down from 25-35 percent during 1988-92.

Coarse grains area is unlikely to decline as much this year as it has over the past 2 years due to price movements. While FSU barley and rye prices lagged far behind wheat prices in 1994 and much of 1995, increasingly tight supplies since mid-1995 have closed some of that gap. Whereas in June 1995 **Russian** fodder barley and food rye prices (as reported by OGO, the largest private Russian grain trader) were both less than one-half of the food wheat price, by June 1996 this share had risen to two-thirds or higher. **Ukrainian** barley prices are likely to rise with production forecast to drop sharply for the second straight year. With FSU farmers having strong incentive to grow both wheat and coarse grains, they could choose to maintain or even increase area sown of both if they can afford the necessary inputs. This could help to stabilize total FSU area sown to grains for the 1997/98 crop after nearly 2 decades of contraction.

Table 5—Russian and U.S. wheat export prices in 1995 and 1996

Month/ Year	U.S. export price ¹	Russian procure- ment price ²	Russian market price ³
-- Dollars per ton --			
1995			
January	\$141	\$84	\$93
February	\$144	\$76	\$87
March	\$135	\$68	\$105
April	\$128	\$65	\$104
May	\$135	\$64	\$108
June	\$157	\$87	\$130
July	\$186	\$104	\$167
August	\$185	\$115	\$210
September	\$194	\$134	\$191
October	\$203	\$162	\$195
November	\$203	\$156	\$198
December	\$209	\$160 ⁴	\$203
1996			
January	\$207	\$161	\$203
February	\$219	\$158	\$200
March	\$216	\$156	\$210
April	\$250	na	\$223
May	\$262	na	\$220
June	\$227	na	\$216
July	\$203	\$165	\$188
August	\$192	na	\$217
September	\$179	na	\$198

¹ #2 HRW, FOB Gulf, less EEP bonus. ² #3 hard wheat.

³ Average price reported by OGO, Moscow. ⁴ Estimate. Sources: Grain Market News, ASCS, Interfax, FBIS, OGO.

As of early October, conditions for next year's FSU grain crop were favorable to good. In **Russia**, winter sowing and ploughing for spring planting were proceeding at rates typical of 1993 and 1994. Although the operations lagged behind last year's pace, 1995 was an unusual year, since widespread drought brought an early end to the harvest and accelerated the pace of winter sowing. At mid-October 1996, moisture conditions throughout the FSU region were generally better than a year earlier. Some of the drought-stricken regions of eastern **Ukraine** and southern **Russia** have received rains in time to facilitate planting of winter crops. As **Russia** began 1996 winter seeding operations, on-farm fertilizer supplies were reportedly at last year's level, largely thanks to state subsidies. Earlier in 1996, in an attempt to assist farms, the state restricted fertilizer exports.

Market Forces Exert Influence on Region's Grain Market

Despite attempts by individual governments to maintain state control over grain marketing and flows, market forces are expanding their influence in the FSU region. State procurements, which declined from around two-thirds of the total FSU grain market in 1993 to less than one-third in 1995, are likely to decline further this year as governments lack the ready cash to fund large-scale state grain purchases. In the **Baltic nations** and **Kyrgyzstan**, state grain purchases have fallen to less than 10 percent of total grain marketed. Certain countries, notably **Russia** and **Ukraine**, have set lower federal-level grain procurement targets for this year than last year, although regional governments continue to procure large shares of grain.

Private grain traders are aggressively expanding operations in many FSU countries, especially **Russia** and the **Baltic nations**, though non-cash marketing channels such as barter and in-kind payment to workers continue to play a big role given the limited liquidity of private traders. Private traders have expanded market share in many FSU countries through direct contacts with producers and consumers of grain. Frequently traders supply inputs to farmers in return for all or a portion of the grain they grow.

Other trends spurring the development of a private grain market include privatization of grain elevators in certain FSU countries and the emergence of farmers with harvesters or combines who offer to harvest neighboring fields, often in return for a portion of the harvest.

Countries such as **Belarus**, **Turkmenistan**, and **Uzbekistan**, which have maintained strong state control over their grain markets, face increasingly costly consumer subsidies to keep domestic grain prices well below international levels as well as rising levels in neighboring FSU countries. In **Russia**, in contrast, controls over the grain market are rare at the federal level, though they exist at the regional level.

Some FSU countries have attempted to control foreign trade of grain. In **Ukraine**, 1995's temporary ban on grain exports was thwarted by traders, who

exported the grain in milled (flour) form instead. This year Ukrainian authorities again moved to control the domestic grain market by pressuring state-controlled elevators to hold stored grain until all state grain purchasing contracts had been filled. Further attempts to control grain flows in various FSU countries are likely in coming years, but they will become increasingly costly in political and economic terms as non-state marketing channels expand and domestic grain prices move closer to international levels.

Drought Cuts Output of Other Crops

Sunflowerseed Exports Rise Despite Smaller Crop

Dry weather has reduced projected 1996 sunflowerseed output to 3.4 million tons in **Russia** and 2 million tons in **Ukraine**, down 20 percent and 30 percent, respectively, from 1995.

Lower world prices for sunflowerseeds after the 1995 harvest and **Russia's** unexpectedly large 1995 crop led to high season-ending stocks of 515,000 tons. Lower prices at planting time and improving profitability for grain likely stalled the growth in sunflowerseed area in 1996 in **Russia** and **Ukraine**.

With lower production, **Russian** and **Ukrainian** sunflowerseed exports are expected to fall to 450,000 tons and 200,000 tons respectively in 1996/97 (October/September). Turkey and Spain are the two major export destinations for Russian sunflowerseed. Argentina and Turkey were the most important extra-FSU sources for Russian sunflowerseed oil imports in 1995. Russian sunflowerseed exports have remained strong partly because much of the sunflowerseed crop was already contracted for by foreign buyers.

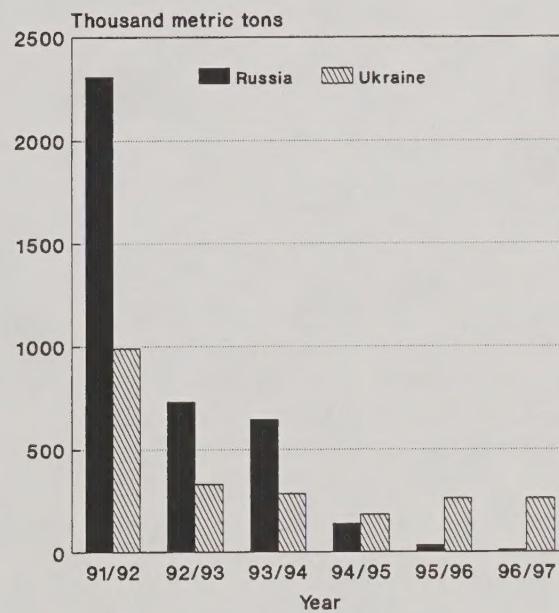
Russian sunflowerseed oil imports, which are estimated at 250,000 tons for 1995/96, are projected to drop to 150,000 tons in 1996/97. Smaller sunflowerseed crops in Russia and Ukraine will lead to a nearly 25-percent decline in Ukrainian crushings. **Ukraine** has become a major supplier of vegetable oil to **Russia**, mostly for further processing.

In 1996/97, **Russian** sunflowerseed processing is expected to rise slightly to 2.7 million tons, just 100,000 tons above the 1995/96 crush. This year's

rate of domestic processing and exports will come as last year's large stocks are drawn down to a projected 280,000 tons by the end of 1996/97. As stocks decline, sunflowerseed prices will likely rise and 1997 plantings could rebound to near 1995 levels.

Domestic sunflowerseed meal consumption is likely to decline more in **Ukraine** than in **Russia** because Ukraine had a smaller carryover. In both countries, meal remains a virtual byproduct of less importance than oil given the contraction in the livestock sectors. U.S. P.L.480 credit is facilitating U.S. soybean meal exports to **Ukraine**. Imports are estimated at 250,000 tons each year for 1995/96 and 1996/97. In **Russia**, soybean meal imports are negligible (figure 4).

Figure 4
Russian and **Ukrainian**
Soy Meal Imports*



USDA estimates. 1996/97, USDA forecast.
*Includes soybeans on meal equiv. basis.

Russia Moves To Restrict Sugar Imports from Ukraine

The drought that has affected sunflowers has also affected **Russian** and **Ukrainian** sugar production, with the Ukrainian crop the more severely damaged. USDA forecasts place Ukrainian sugar production at 2.7 million tons, raw value, 29 percent below 1995. Russian production is forecast at 1.95 million tons,

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down only 5 percent. Sugar consumption in both countries has declined in recent years, but much of the decrease is attributed to reduced waste and rising imports of sugar-containing HVPs. Therefore, consumers are not likely affected as much as consumption declines suggest.

Russia is traditionally a sugar importer, with imports comprising over half of total use. Ukraine, a traditional exporter, is the major supplier to Russia. Because Ukrainian refined sugar could enter duty free, imports from Ukraine were viewed as undercutting the Russian domestic refining industry. As of October 1, Russia reportedly implemented a 20-percent value-added tax on imports of Ukrainian sugar, but enforcement has been delayed. In addition, quotas have been proposed on imports of Ukrainian raw and refined sugar.

Cotton Production Down Slightly in Less Reformed Central Asia

Turkmenistan and Uzbekistan together comprise over 80 percent of FSU cotton production. While production in Turkmenistan for 1996/97 (August/July) is unchanged, Uzbekistan's output is expected to decline slightly from 1995/96. Plantings are estimated unchanged, while yields are forecast slightly lower. The governments of these Central

Asian countries remain heavily involved in the production and marketing of cotton. While Uzbekistan has partially liberalized prices, production targets remain in effect. Pricing reforms have scarcely begun in Turkmenistan. Cotton lint exports from both countries still strongly favor extra-FSU destinations because of the hard currency earning potential. The Russian textile industry may be stabilizing after 5 years of falling production. Consequently, cotton imports are forecast to hold at 239,000 tons, the same as in 1995/96. Forecast imports are well behind imports of the two previous years.

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